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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE JANUARY 1988

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JANUARY, 1988

CHILTON'S
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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

VOL. 87, NO. 1

COVER STORY

28 THIRD PARTY LOGISTICS: SUPER ALLY OR WEAK LINK?

Third party logistics services are driving a wedge through the field of transportation and distribution management. Just when it seemed there was a brighter future, and higher status, for traffic professionals within American companies, independent suppliers of logistics services have launched a marketing onslaught which could permanently alter the way many businesses handle their logistics.

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Union Carbide has improved relations with its customers by building a partnership between itself and a small network of quality haulers.

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56 THE TRANSPORTATION/PURCHASING INTERFACE

How well these two groups work together will be the key to productivity and profitability as logistics looks to the 1990s.

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It isn't Tinkerbell that keeps Disneyland's multi-million dollar consumer business humming. It's a basic, no-frills, labor intensive warehouse operation.

66 THE BIG ISSUES FOR '88

The transportation and distribution industry faces big challenges in the year ahead, from continued job insecurity to possible disruption of rail service.

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To make the in-house vs. outsource decision, you need to work with the right numbers. Here's how to get them.

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LOGISTICS TRENDS

Distribution managers got better raises than most last year

Distribution managers got bigger raises than most executives in 1986. Salaries for top transportation, distribution and logistics executives increased 7.5 percent, compared to the national average of 5.9 percent. The top distribution executive in the 47 firms surveyed averaged $120,942 in total compensation. That's the word from a California consulting firm that recently published the results of a nationwide compensation survey.

Major industries represented in the survey—conducted by DGM Associates of Pacific Palisades—are pharmaceuticals, food and beverage, and wholesale/retail. The survey covers total compensation for each position (with and without bonus) and differentiates between organizations (corporate, group/division, subsidiary), sales volume, and industry grouping.

Copies of the 126-page report, which contains an executive summary and numerous charts and graphs, are available from DGM Associates.

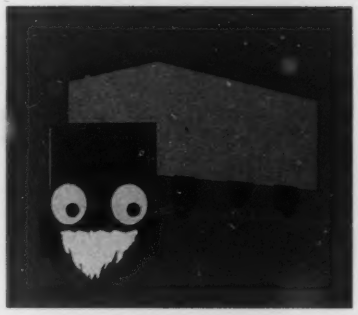
Write in #512 on Reader Service Card

The graying of the food fleet

Massive transportation equipment purchases await many food distributors, says a college professor who has spent a year analyzing the wholesale grocery and foodservice distribution business.

"Clearly, the choice to buy new equipment may soon no longer be a choice but an imperative," says Prof. Scott Ames, of Southern Methodist University. Despite an increase in productivity, thanks to the use of computers and driver training, Ames says "The day of reckoning is upon us. A lot of those guys should be talking to their bankers."

Among Ames' findings: 10-year-old trucks, many past the point of optimum utility, are common in the food distribution business. Many were bought in the early 1970s, during a period of great expansion. As a result, we are witnessing the "graying of the food fleet," Ames says, and many firms must now face the task of updating their delivery fleets, either by purchase or lease.



Distribution costs fall, and rise, in 1987

According to management consultant Herbert W. Davis, average total distribution costs as a percentage of sales amounted to 8.01 percent in 1987. This was a reduction of 4.2 percent from 1986 distribution costs. Davis adds, however, that distribution dollars spent per hundred pounds of product distributed increased 4.4 percent, for an average of $36.87/cwt. "The difference in the performance figures basically indicates that many of the companies we chart in our *Database* were rescued by higher product prices and were not really practicing sounder distribution management," says Davis. The cost category that increased the most was administration. Davis attributes this increase to more corporate resources being directed toward planning and containing distribution costs. More information is available from Herbert W. Davis and Co., 111 Charlotte Place, Englewood Cliffs, NJ 07632 (201-871-1760). Or, write in number **513** on the reader service card.

Overall Cost Average for 151 Companies in Davis Database

	Dist. cost in	
	% of sls	$/cwt
Finished Goods Trans.	3.26	10.61
Warehousing	1.91	9.08
Order Processing/ Customer Service	0.82	5.75
Distrib. Admin.	0.42	2.17
Inventory Carrying Cost @ 18%	1.83	10.66
Other	0.43	1.29
Total Dist. Cost	8.01	36.87

A tough act to follow at Conrail

Conrail chairman L. Stanley Crane, who led the railroad from near oblivion as a government ward to become one of the healthiest railroads in the country, is stepping down. The railroad expects to have a new chief executive in place by the end of March. Three internal candidates are reportedly being considered, as well as several executives from outside Conrail. Crane, 72, started at Conrail January 1, 1981 shortly after retiring as chairman of the Southern Railroad, where he had spent 40 years. In his years at Conrail, Crane drastically cut costs and increased marketing efforts, especially in the area of intermodal. Crane's greatest achievement was thwarting the Reagan administration's plan to sell Conrail to the Norfolk Southern; instead, Crane established Conrail as an independent company through a public stock offering.

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CHILTON'S
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THE GUILTY SHIPPER
Carriers Point The Finger

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Private fleets make the grade

Lotus 1–2–3 for logistics

A negotiations primer

FEBRUARY, 1988

CHILTON'S
DISTRIBUTION
THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

VOL. 87, NO. 2

COVER STORY

28 THE GUILTY SHIPPER: CARRIERS POINT THE FINGER

In recent months, there's been a lot of discussion about that fateful day when a growing driver shortage, outrageous insurance expenses and a few more bankruptcies will pave the way for motor carriers to rise from their submissive posture and wreak swift judgment on those shippers that have ruthlessly squeezed them since early in the decade. Unlikely? Maybe, but the possibility belies some nasty realities about the way shippers use and abuse their carriers. Are we talking about your company here?

FEATURES

38 LOTUS 1-2-3 FOR LOGISTICS: A POWERFUL SWEET SOLUTION

This basic software package isn't just for number-crunching accountants any more. Here are two companies that have applied it successfully to a number of logistics problems.

46 THE BEST APPROACH TO INTEGRATED LOGISTICS

First Best Foods reorganized. Then it worked out a forecasting method to make its DRP system fly. Logistics holds it all together.

50 CASEBOOK: PRIVATE CARRIAGE

62 LOGISTICS TOOLS: TRANSPORTATION NEGOTIATION

Everything is negotiable in transportation today, but if the shipper is to come out a winner, he must have the skills that carrier reps are bound to possess.

66 SOFTWARE REVIEW: MICROANALYTICS' OPTISITE

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PROGRESS IN INTEGRATION

Level of implementation	1982	1987
Concept has not been recognized	24%	25%
Concept recognized but no decision to implement	20%	20%
Recognized and adopted but not successfully implemented	29%	26%
Adopted and successfully implemented	27%	29%

Over the past five years, recognition and acceptance of the integrated logistics concept has not increased, and there has been only a modest improvement in the success rate of new users.

Miles to go before we're integrated

The conclusion of a survey conducted in 1987 by consultant Craig M. Gustin and Golden State University is that logistics has held its own in regard to computer systems implementation during the last five years and made advances in specific areas. However, the report reveals that much remains to be done.

The study followed up on a 1982 survey. Among the trends identified over the last five-year period, Gustin reports a persisting difficulty in integrating the logistics function with other departments. The 1987 study indicated no significant progress toward integration in the last five years.

An increasing need for inbound transportation and purchasing systems was also indicated by users, as was a desire for more computer support for daily routines, as opposed to strategic planning.

Roll a six to cut inventory costs

Its sales probably won't rival those of *Trivial Pursuit*, but a new Just-In-Time Simulation Board Game, developed by a French consulting Group, is an indication of how popular the zero-inventory production process has become among logistics planners. The game is designed to teach corporate managers the techniques of just-in-time manufacturing. Players build six different products by moving them through five work stations using a number of different production techniques. As they play, managers learn to develop production schedules, calculate inventory levels, and assign *kanban* cards. Interested? Competition shouldn't be hard to find. Managers already playing the just-in-time game represent such manufacturing giants as TRW, Hewlett-Packard, Peugeot, Renault, and 15,000 others in Europe and North America.

UPS tops list of most admired transportation companies

For the second straight year, United Parcel Service ranked first among transportation companies in *Fortune Magazine's* survey of the nation's most admired companies. Criteria included such things as management quality, service, and profitability. The top 10 transportation companies listed: 1. UPS, 2. AMR, 3. Delta Airlines, 4. Norfolk Southern, 5. Union Pacific, 6. Burlington Northern, 7. CSX 8. Santa Fe Southern Pacific, 9. Allegis, 10. Texas Air.

Additional kudos are in order for Roadway Services and Allegis, which were tapped by *Forbes* magazine as 1987's most innovative companies.

Air freight trends: two extremes

Where's the money being made in air freight today? According to Dave Beatson, managing director, freight sales for American Airlines, the hot products are deferred service, usually second day, and, at the other end of the service spectrum, same day service. "Deferred service gives the shipper fast, reliable door-to-door delivery at 30 to 40 percent less than next day service," Beatson says, "and it gives us hundreds of routing options." There also is an increased demand for American's same day service, Beatson adds, for companies on deferred service schedules that have emergencies.

The field of freight payment players shrinks again

Barry & Lloyd, based in Norwood, Mass., has quietly built itself into one of the foremost providers of freight bill auditing and payment services. With the recent signing of a big contract with General Electric and the acquisition of the freight management services division of Ameritrust, Barry & Lloyd figures to process $1 billion in freight bills this year. "This type of growth is something we will tightly control," says marketing director Bud Tackett. The acquisition of Cleveland-based Ameritrust allows Barry & Lloyd to expand into the Midwest with a solid base of loyal clients, Tackett says.

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ARE YOU IN A CAREER WASTELAND?

Buyer's Guide to Freight Payment Services

GM's JIT Solution

When Short Lines Make Sense

MARCH, 1988

CHILTON'S
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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE

VOL. 87, NO. 3

COVER STORY

28 CAREER WASTELANDS

There will always be sad tales from the distribution desert; the scattered bones of undirected sorts who wandered into our discipline and never found its lush oases. But most of us now know that the field is not a dead end. We've seen salary surveys which show how quickly you can fill your canteen from the distribution well. What we need now is a good path, so we don't trudge around aimlessly.

FEATURES

38 HOW GM-CANADA MAKES JIT GO

When every additional inventory turn means saving $1 million, JIT becomes serious business. GM has found a few solid carriers to help make the system work.

41 HOW SHIPPERS VIEW CARRIER NEGOTIATIONS

Shippers need more from upper management than just the boss's best wishes.

48 HOW TO KEEP YOUR RAIL SERVICE ROLLING

More and more shippers are finding that abandoned track doesn't necessarily mean the end of the line for their rail service.

60 CASEBOOK: AIR FREIGHT

66 WHAT DOES YOUR INVENTORY REALLY COST?

The way you pay your suppliers, and the way they pay you, can make a big impact on the bottom line. Here's why the guys in finance act the way they do.

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LOGISTICS TRENDS

Do it for the money

Deficit schmeficit. Don't export to improve the U.S. trade deficit. Do it to make money.

That was Beacon Council President Tom Ferguson's simple message to a group of New York Rotarians recently. Ferguson says it's worked for Florida. The region's trade boom with Latin America during the 1970s and early 80s fell apart because of the oil glut, but "instead of moaning and groaning, we began to explore other international markets, especially Western Europe and the Far East, including luring Western European companies to use Greater Miami as a major Western Hemisphere distribution center."

Ferguson also offered five tips for exporters:

- **Take an active role, rather than a passive one**. If you're going to sell internationally, you have to not only be the best, you have to market the best.
- **Understand they are different than we are**. Learn the idiosyncracies of dealing with foreign business people.
- **Make a long term commitment**. Once you get into international business, stay there.
- **Have an international business plan**. Don't make international business an afterthought to your domestic efforts. Make it a separate specialty.
- **Lean on other people's brains and budgets**. If you go international, lots of people will be willing to help you and, in some cases, pay some of the bills. Find them.

One place to look is the federal government, which recently published the *Exporter's Guide to Federal Resources for Small Business*. The guide identifies individuals in various federal agencies who can provide technical support to small business owners interested in international trade. For your copy, send $3.50 to Dept. 36-XK, Superintendent of Documents, Washington, D.C. 20402-9325. Specify stock number 045-000-00248-9.

Jobs: They're still out there

In 1984, a study by Syracuse University Professor Paul H. Zinszer determined that colleges graduated some 2,500 logistics majors, while at the same time, businesses hired 4,500 entry level employees in logistics functions. Zinszer's study also predicted that by this year, the academic supply of logistics grads would finally outstrip the industry demand (see chart). Yet Zinszer asserted that this would not appreciably close the gap between the number of grads and the number of entry level logistics positions available. "Starting salaries have remained strong," he says, "and will continue to be high relative to other business school disciplines."

GROWTH RATE IN LOGISTICS EMPLOYMENT

	demand	supply
last 3 years		
Undergrad	39%	9%
Masters	50%	12%
next 3 years		
Undergrad	13%	18%
Masters	5%	16%

The Council of Logistics Management, which sponsored Zinszer's study, also is doing its part to improve the lot of logistics students. CLM (312-574-0985) will award up to nine scholarships this year for students intent on a career in logistics. April 1 is the deadline, so don't delay.

Delaney, Hazard receive Salzberg Medallions

Syracuse University's Salzberg Medallion, presented annually to outstanding men and women in the field of transportation and logistics, has been awarded to Robert V. Delaney and John L. Hazard.

Delaney, who recently joined Arthur D. Little, Inc. as director of the consulting firm's freight transportation practice, will be honored as a practitioner. He has held positions with Monsanto Textiles Co., Maryland Cup Corp., Pet Inc., International Paper, Leaseway Transportation and Ernst & Whinney. Hazard, professor in the marketing and transportation administration department at Michigan State University, will receive an honorary medallion, given to an academician or policy maker in the field of transportation management. He has served the federal government as chief economist for the St. Lawrence Seaway Development Corp., and as assistant secretary of transportation for policy and international affairs.

Meet us in Atlanta

INTERNATIONAL INTERMODAL EXPO'88

April 19-21 • Atlanta, U.S.A.

Are you trying to put an intermodal network together?

If so, you ought to attend the International Intermodal Expo '88, opening April 19 at the Georgia World Congress Center in Atlanta. The heavy hitters in the intermodal industry will be there, and you'll have an opportunity to see and hear about the latest in intermodal technology and strategy. The Expo also presents the ultimate climate for making the contacts needed to build a successful intermodal transportation system. For information call (404) 524-7777.

Deregulation only half done

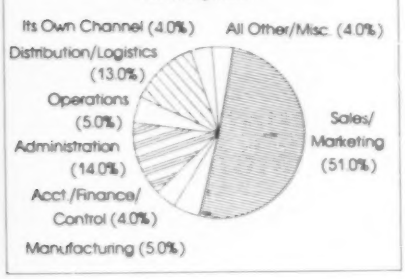
If it moves, regulate it; if it moves fast, investigate it; but if it doesn't move at all, subsidize it.

That, says Rep. Tom DeLay (R-TX), has been Congress' philosophy on transportation regulation. "The $100 billion saved by current deregulatory legislation has proved this attitude to be wrong, and we have to finish the job," DeLay told attendees at a recent Washington seminar. DeLay promised equally dramatic savings to shippers and the general public from complete trucking deregulation as called for in the DeLay/Moody/Packwood bills (H.R. 2591 and S. 1710).

Virtually all speakers at the seminar called for defeat of the rail regulatory bills (S. 676 and H.R. 1393) supported by coal and electric utility interests. Darius Gaskins, president of the Burlington Northern Railroad, said that railroads are still overburdened by federal regulation, and he delivered a call to free the railroads from the Railway Labor Act (allowing secondary boycotts and hindering direct management-labor wage negotiations), the Federal Employer's Liability Act (requiring costly and time-consuming litigation instead of a workmen's compensation system for injured rail workers), and the Railroad Retirement Act (requiring the railroads to pay retirement benefits for a growing list of retirees using payments from a shrinking labor force).

ORGANIZATIONAL CHANNEL THROUGH WHICH CUSTOMER SERVICE REPORTS

All Companies



Customer service: Bottom line, not fluff

Corporate America is rapidly sensing the importance and value of customer service. Those two words are getting perhaps more play than any others these days at industry gatherings. Helping to confirm this is a recent compensation survey sponsored by the International Customer Service Association (ICSA), which found that the average salary for a customer service director jumped from $39,000 in 1986 to more than $53,000 last year.

"It reflects more of a commitment from the top executives of major corporations to the customer service area," says Bill Reinberger, ICSA public relations director. "They are realizing that customer service is a bottom line department, not a fluff department."

The study also revealed that 51 percent of the respondents in customer service report through sales and marketing, 14 percent answer to the administration side, and 13 percent fall under the distribution/logistics umbrella.

Manufacturers ranked customer service measures in the following order: Internal order cycle time (the time from receipt of a customer order until the order is shipped), orders shipped complete, total order cycle time (the time the customer order is received until the customer receives the order), value of goods shipped incorrectly and returned, transit time, case fill rate, value of goods damaged in transit, and dollar fill rate.

CF AIRFREIGHT

A Super prize from CF AirFreight

Joel Goldhar got to see the Redskins rout the Broncos in Super Bowl XXII courtesy of CF AirFreight. Goldhar, an employee of Burda Patterns in Smyrna, Ga., won CF's 1988 Super Bowl Grand Prize: Two tickets to the game, meals and hotel for two nights. This is the sixth year CF has sponsored the NFL Sweepstakes, which kicked off in DISTRIBUTION's August issue with a full color NFL Preview that included statistics, schedules and entry forms.

HOW SHIPPERS VIEW CARRIER NEGOTIATIONS

This reader survey reveals that upper management has given transportation managers the opportunity to take the lead in dealing with carriers. But shippers say they need more than just the boss's best wishes.

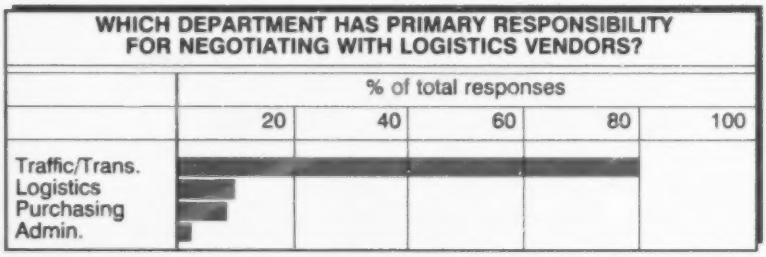
The importance of good negotiating skills in the logistics department is crucial to the effectiveness of a company's transportation network. The results of the "Dialogue" survey conducted in the November 1987 issue of DISTRIBUTION suggest that about 80 percent of transportation and traffic managers have the primary responsibility for negotiating with carriers for transportation services. Another 10 percent of the negotiations are handled by logistics managers (see charts 1 and 2.)

At the same time, the art of negotiation is a relatively new skill for most transportation professionals, and the industry as a whole is still testing the waters to find the best approach to dealing with carriers. This poll of shippers indicates that most are confident in their ability to negotiate for transportation services and have met with success (see chart 3). Less than 1 percent of the shippers responding to the survey felt that they were less skillful negotiators than the carrier representatives they met with.

This rosy outlook points to a promising future if true, but shippers should be cautioned that they may not be the best judges of their own success. A study conducted in 1968 by Dr. Chester L. Karrass, of the Graduate School of Business Administration at the University of Southern California, indicated that in negotiations, winners and losers both express equal satisfaction. (See "Research Findings about Negotiations," February, p. 64.)

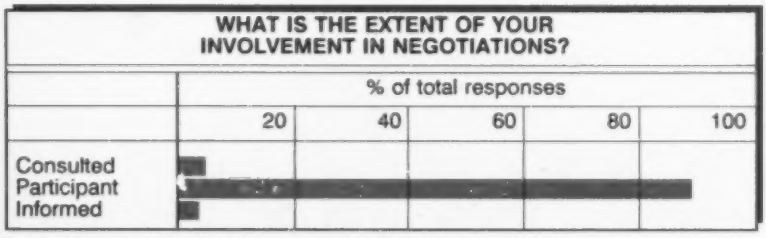
The nearly universal satisfaction of shippers over their handling of carriers fits in with these findings, and so may not be a true reflection of how well shippers are doing at the bargaining table.

chart 1



Transportation managers can't argue that they aren't being given the reins when it comes to carrier negotiations. Surprisingly, no respondents indicated that the legal department had primary responsibility for negotiations.

chart 2



Most transportation/distribution managers are active participants in carrier negotiations. A small percentage are still involved only in the role of consultants prior to the actual meetings with the carrier, and fewer yet are excluded entirely and merely informed of the results of the negotiations.

Everyone's a Winner, Hopefully

The "winner" and "loser" labels may actually be inappropriate. On the surface at least, it appears as if the mood during negotiations is anything but hostile. Shippers have indicated a strong preference for a win/win approach to negotiating, and carriers have good reason to deal fairly with shippers as well (see chart 4). "The customer has the gold," advises one carrier account exec. "The key issue during negotiation is to solve his problem. Make him more profitable and he will be a customer forever."

continued